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Warnaco of Canada is one of the nation's largest apparel companies whose business units market leading brands in attire and leisure products. Among these labels are Warner's intimate apparel; Hathaway dress and sport shirts, both men's and women's lines; White Stag women's sportswear, as well as men's and women's ski, tennis and other active sportswear; Croydon rain and outerwear, for men and women; Don Parker men's slacks and leisurewear; Puritan men's sweaters and sport shirts; High Tide junior swimwear and cover-ups; and Speedo racing and fashion swimsuits.

## Financial Highlights—Pro Forma Combined<sup>(1)</sup>

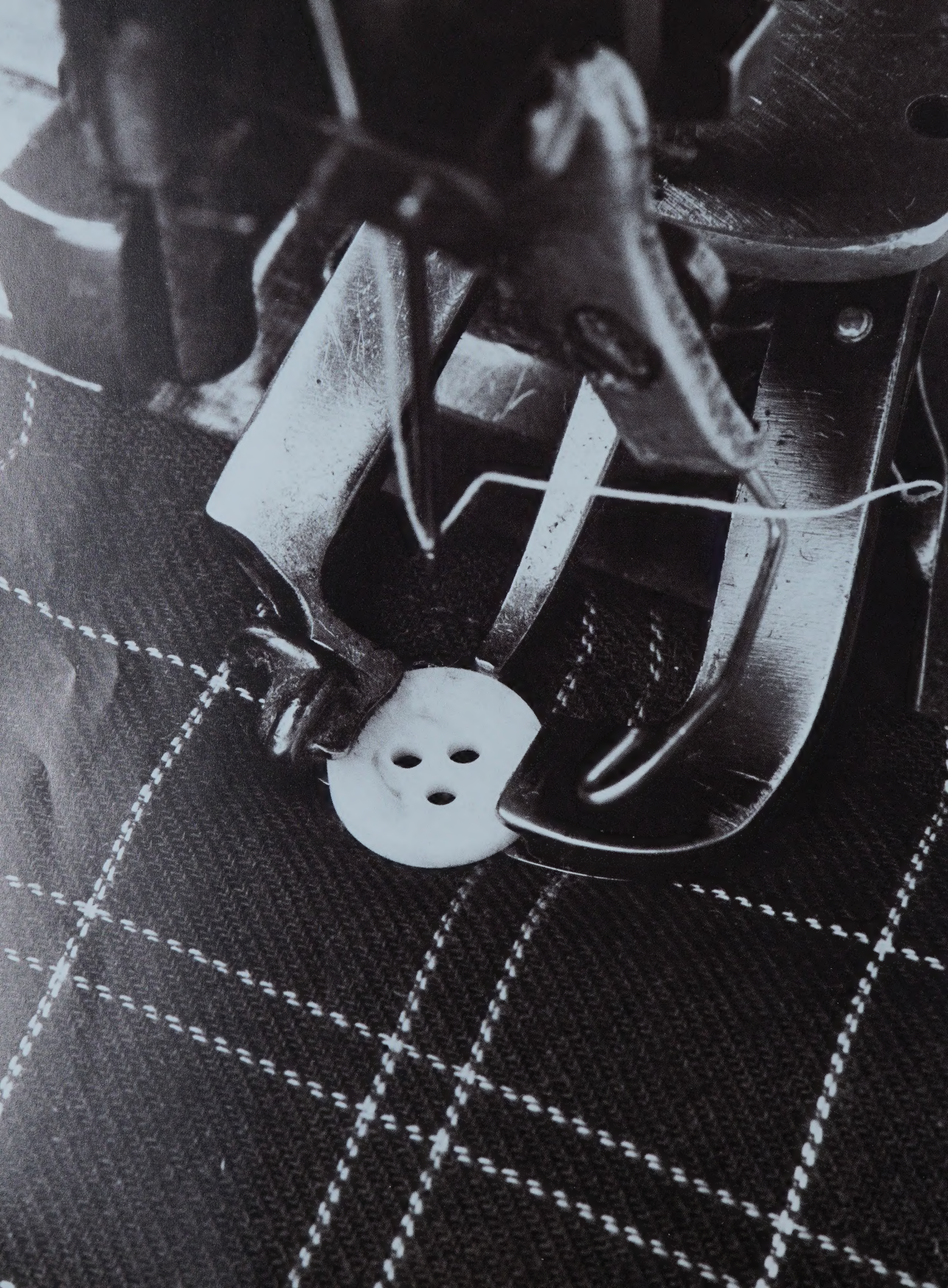
WARNACO OF CANADA LIMITED AND SUBSIDIARY COMPANIES

(Dollars in thousands except per share data)	1976	1975	1974	1973	1972
Net sales	<b>\$41,565</b>	\$33,659	\$28,605	\$25,138	\$20,860
Earnings before income taxes and extraordinary items	<b>3,355</b>	3,746	3,757	3,241	2,241
Earnings before extraordinary items	<b>1,679</b>	2,067	2,059	1,783	1,135
Extraordinary items	<b>—</b>	—	—	—	21
Earnings for the year	<b>1,679</b>	2,067	2,059	1,783	1,156
Earnings per share <sup>(2)</sup> :					
Before extraordinary items	<b>\$1.68</b>	\$2.07	\$2.06	\$1.78	\$1.14
After extraordinary items	<b>1.68</b>	2.07	2.06	1.78	1.16

(1) The pro forma combined statement of earnings reflects the operating results for the five years ended January 1, 1977 as though the business and net assets of C. F. Hathaway (Canada) Ltd. and the shares of Croydon Manufacturing Co. Limited, Harold Botnick Inc., Botnick Industries Ltd. and Don Parker Mfg. Ltd., had been held by the company for the entire period. This presentation, like others in this report, includes the results of White Stag of Canada only from the effective date of acquisition, August 1, 1975.

(2) The pro forma calculation of earnings per share for each year is based on the 1,000,000 common shares outstanding subsequent to the public issue on October 29, 1973.







### To the Shareholders:

The company had a satisfactory year in 1976, despite the soft spots that developed in the economy and inevitably had adverse effects on our industry.

Net sales for 1976 totalled \$41,565,000, up from \$33,659,000 in 1975. Net earnings were \$1,684,000, or \$1.68 per common share, compared to \$2,067,000, or \$2.07 per share, for 1975. The 1975 figures include the five-month results of the White Stag Women's Sportswear division acquired from Warnaco Inc. on August 1, 1975.

The sluggish pace of activity which characterized

the economy, particularly retail trade, is reflected in the 1976 results. While the year started strongly, sales at retail weakened in the second and third quarters, and retailers experienced a build-up in inventories. This situation forced the retailers, large and small, to cut back on normal fall and winter requirements, with the result that fourth quarter reorders did not materialize. Consequently, we experienced our first quarterly loss since becoming a public corporation.

Most operating divisions were on or ahead of target for the year. Warner's, Hathaway and the Botnick Group once again produced record sales and profits. The Croydon division made a remarkable recovery after experiencing a December 1975 strike which seriously affected its 1976 first quarter shipments. Units which have a major sales base in western Canada

were significantly affected by the more marked slow-down in the pace of business in that area. As a result, they experienced lower sales and larger inventory markdowns than anticipated. Management has specially reviewed the operations of the divisions most affected and has instituted programs to ensure a better profit performance in 1977.

Some of our divisions are affected in a few product lines by the Federal Government's restrictions holding 1977 imports to 90 per cent of 1975 levels. Steps are being taken to ensure that this volume is protected by additional domestic manufacture.

As you know, I was elected president and chief execu-



Harold H. Botnick

tive officer of Warnaco of Canada shortly after midyear, succeeding James C. Walker, who was elected to the presidency of Warnaco in the United States. We can all be quite proud of the distinction attaching to Warnaco of Canada in the selection of Mr. Walker to head the total worldwide operations of Warnaco Inc. He continues his special interest and involvement in Warnaco of Canada, both in his position

with Warnaco Inc. and as chairman of the board of directors of Warnaco of Canada.

We would like to express our thanks to the members of the board for their continued support and wise advice, to our public and store customers for their support for our outstanding group of brands, and, very particularly, to our 1,250 employees. Management is quite aware that the company's success traces very largely to the motivation, skill and enthusiasm of each and every member of this group of dedicated men and women.

As Warnaco of Canada enters 1977, our prospects are excellent for renewed growth, both in sales and earnings. The board gave recognition to this potential early in 1977 by increasing

the annual dividend rate to 54 cents per common share from 50 cents per share, effective with the quarterly payment on April 30, 1977 to shareholders of record on April 1, 1977. We expect first quarter results to be very encouraging, and we look forward, with you, to a very successful full year in 1977.

Harold H. Botnick  
President and Chief  
Executive Officer

Prescott, Ontario  
March 1977

Products opposite: White Stag down vest, Warner's bra and control panty, Croydon rainwear and Hathaway Golf Classic shirt, one of a variety of apparel products marketed in Canada under an exclusive arrangement with Jack Nicklaus (pictured here) and his Golden Bear, Inc. organization. Overleaf: Don Parker slacks with Puritan sport shirt and sweater, Speedo racing swimsuit, Hathaway dress shirt, White Stag ski outfit and High Tide bikini.











## Consolidated Statement of Earnings and Retained Earnings

WARNACO OF CANADA LIMITED AND SUBSIDIARY COMPANIES

	52 weeks ended January 1, 1977	53 weeks ended January 3, 1976
Net sales	\$41,565,000	\$33,659,000
Cost of goods sold	29,544,000	23,868,000
Gross margin	12,021,000	9,791,000
Expenses:—		
Selling	5,168,000	3,647,000
Administration and general	2,962,000	2,032,000
Interest:		
Current debt	364,000	161,000
Long-term debt	186,000	285,000
	8,680,000	6,125,000
	3,341,000	3,666,000
Interest income	14,000	80,000
Earnings before income taxes	3,355,000	3,746,000
Income taxes:		
Current	1,637,000	1,580,000
Deferred	39,000	99,000
	1,676,000	1,679,000
Earnings for the year	1,679,000	2,067,000
Retained earnings at beginning of period	6,823,000	5,256,000
	8,502,000	7,323,000
Dividends on common shares (\$0.50 per share)	500,000	500,000
Retained earnings at end of year	\$ 8,002,000	\$ 6,823,000
Earnings per share	\$1.68	\$2.07



## Consolidated Balance Sheet

WARNACO OF CANADA LIMITED AND SUBSIDIARY COMPANIES

Assets	January 1, 1977	January 3, 1976
<b>Current:</b>		
Cash	\$ —	\$ 826,000
Accounts receivable	6,178,000	6,258,000
Inventories (Note 2)	10,605,000	7,733,000
Prepaid expenses	227,000	137,000
	17,010,000	14,954,000
Fixed assets, at cost (Note 3)	4,747,000	4,186,000
Less: Accumulated depreciation	2,437,000	2,038,000
	2,310,000	2,148,000
Excess of purchase price of investments in subsidiary companies over the net value of the underlying tangible assets acquired	3,611,000	3,611,000
Other assets, at cost less amortization (Note 4)	403,000	495,000
	<u>\$23,334,000</u>	<u>\$21,208,000</u>



**Liabilities and Shareholders' Equity**

January 1, 1977

January 3, 1976

<b>Current:</b>		
Bank indebtedness (Note 5)	\$ 2,743,000	\$ 240,000
Accounts payable and accrued liabilities	2,790,000	2,673,000
Due to affiliated companies	1,780,000	2,741,000
Dividends payable	125,000	125,000
Income taxes payable	103,000	39,000
Current portion of long-term debt	725,000	665,000
	8,266,000	6,483,000
Long-term debt (Note 6)	1,195,000	2,070,000
Deferred income taxes	283,000	244,000
	9,744,000	8,797,000
<b>Shareholders' Equity:—</b>		
Capital stock:		
Authorized—2,500,000 common shares without par value		
Issued and outstanding—1,000,000 shares	5,588,000	5,588,000
Retained earnings	8,002,000	6,823,000
	13,590,000	12,411,000
Contingent liabilities and commitments (Note 7)		
	<u>\$23,334,000</u>	<u>\$21,208,000</u>

Approved by the Board:  
R. de Wolfe MacKay, Director  
Warren Y. Soper, Director



## Consolidated Statement of Changes in Financial Position

WARNACO OF CANADA LIMITED AND SUBSIDIARY COMPANIES

	52 weeks ended January 1, 1977	53 weeks ended January 3, 1976
<b>Source of funds</b>		
Earnings for the year	\$1,679,000	\$2,067,000
Add: Items not involving current funds:		
Depreciation	433,000	322,000
Deferred income taxes	39,000	99,000
Amortization	42,000	18,000
Other	—	(5,000)
	2,193,000	2,501,000
Life insurance policy proceeds	50,000	—
	2,243,000	2,501,000
<b>Disposition of funds</b>		
Acquired from White Stag of Canada:		
Fixed assets	—	750,000
Intangible assets (Note 4)	—	463,000
	—	1,213,000
Additions to fixed assets, net of minor disposals	595,000	331,000
Net reduction of long-term debt	875,000	625,000
Payment of dividends	500,000	500,000
	1,970,000	2,669,000
Increase (decrease) in working capital	273,000	(168,000)
Working capital at beginning of year	8,471,000	8,639,000
Working capital at end of year	<u>\$8,744,000</u>	<u>\$8,471,000</u>



## Notes to Consolidated Financial Statements

WARNACO OF CANADA LIMITED AND SUBSIDIARY COMPANIES January 1, 1977

### 1. Summary of accounting policies:

**Basis of consolidation:** The consolidated financial statements comprise the accounts of the parent company and all of its subsidiaries from their respective dates of acquisition.

The 1976 consolidated statement of earnings and retained earnings includes the operations of the White Stag Division for a full year, whereas the 1975 statement includes only a five month period, the division having been acquired on August 1, 1975.

**Inventories:** Inventories are stated at the lower of cost and net realizable value. Cost is determined principally on the bases of standard costs (which approximate actual costs) and actual costs.

**Depreciation and amortization:** Depreciation is calculated on a diminishing balance basis at annual rates of 5% on build-ings, 20% on machinery and equipment and 30% on automo-tive equipment. Leasehold improvements are amortized over the terms of the leases (plus the first renewal option term in certain cases).

**Intangible assets:** The excess of purchase price of invest-ments in subsidiary companies over the net value of the under-lying tangible assets acquired is retained as an asset in the consolidated balance sheet and is not being amortized.

Intangible assets acquired on the acquisition of the net assets of White Stag of Canada Ltd. are being amortized as follows:

Goodwill—over 40 years commencing 1975

Leasehold interest—over a twelve and one-half year period commencing in 1975, which represents the remaining term of the lease plus the first renewal option

License—over the remaining term of the license

**Deferred income taxes:** Deferred income taxes are provided for expense items (essentially depreciation) reported for tax purposes in different periods than for financial reporting pur-poses, thus creating a timing difference the tax effect of which is reflected under this heading.

**Research and development:** Market research and product development costs are charged to operations as incurred.

**Earnings per share:** Earnings per share are calculated on the weighted average basis of common shares outstanding during the year. There was no change in outstanding shares during 1975 or 1976 and there are no dilutive factors to affect basic earnings per share.

### 2. Inventories:

	January 1, 1977	January 3, 1976
Raw materials	\$ 2,928,000	\$2,180,000
Work in process	1,386,000	1,709,000
Finished goods	6,291,000	3,844,000
	<u>\$10,605,000</u>	<u>\$7,733,000</u>

### 3. Fixed assets:

	January 1, 1977	January 3, 1976
Land and buildings	\$ 509,000	\$ 460,000
Machinery and equipment	3,689,000	3,265,000
Leasehold improvements	549,000	461,000
	<u>4,747,000</u>	<u>4,186,000</u>
Accumulated depreciation	2,437,000	2,038,000
	<u>\$2,310,000</u>	<u>\$2,148,000</u>

Depreciation amounted to \$433,000 in 1976 (1975—\$322,000).

### 4. Other assets:

	January 1, 1977	January 3, 1976
Assets acquired from White Stag of Canada—		
Leasehold interest	\$235,000	\$235,000
License	100,000	100,000
Goodwill	128,000	128,000
	<u>463,000</u>	<u>463,000</u>
Less: Accumulated amortization	60,000	18,000
	<u>403,000</u>	<u>445,000</u>
Sundry	—	50,000
	<u>\$403,000</u>	<u>\$495,000</u>

### 5. Bank indebtedness:

Existing banking arrangements, which are currently under negotiation, provide the Company with a line of credit of \$6 million, under which borrowings are secured chiefly by assign-ments of certain receivables.



**6. Long-term debt:**

January 1, 1977    January 3, 1976

Payable to affiliated companies in U.S. currency, translated into Canadian funds at par:		
Warnaco of Canada Limited—		
7% loans repayable 1977-1980	\$ 630,000	\$ 870,000
9% loans repayable 1977-1979	500,000	800,000
Croydon Manufacturing Co. Limited—		
7% loans repayable 1977-1980	660,000	825,000
Payable to others:		
Warnaco of Canada Limited—		
Agreement payable \$40,000 annually plus 12% interest	—	40,000
Don Parker Mfg. Ltd.—		
Agreement payable \$60,000 annually plus interest at bank prime rate	120,000	180,000
Agreement payable \$10,000 annually plus 7% interest	10,000	20,000
	<u>1,920,000</u>	<u>2,735,000</u>
Less: Current portion	<u>725,000</u>	<u>665,000</u>
	<u>\$1,195,000</u>	<u>\$2,070,000</u>

Repayment of principal due over next five years:	1977	\$ 725,000
	1978	665,000
	1979	345,000
	1980	185,000
	1981	NIL

**7. Contingent liabilities and commitments:**

Minimum annual rental commitments under non-cancellable leases entered into by the Company and its subsidiaries amount to:

1977	\$ 526,000
1978	511,000
1979	413,000
1980	383,000
1981	238,000
1982-86	388,530

These leases are mainly for buildings and office premises and the rental expense in 1976 amounted to \$489,000 (1975—\$386,000).

**8. Anti-inflation legislation:**

The Company and its subsidiaries are subject to and believe they have complied with, controls on prices, profits, compensation and dividends under the government's anti-inflation program.

**9. Statutory information:**

The Company has nine directors who received aggregate remuneration as directors of \$10,000 (\$10,000 in 1975). The Company's ten officers (eleven in 1975), two of whom are also directors, received aggregate remuneration of \$449,000 (1975—\$345,000).

This statement does not purport to comply with all disclosure requirements unique to the British Columbia Companies Act.

**Auditors' Report****To the Shareholders of Warnaco of Canada Limited:**

We have examined the consolidated balance sheet of Warnaco of Canada Limited as at January 1, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at January 1, 1977 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Pricewaterhouse Co.*

Chartered Accountants  
January 31, 1977



## **Officers**

**James C. Walker**  
Chairman

**Harold H. Botnick**  
President and  
Chief Executive Officer, and  
President, the Botnick Group

**T. R. Hornby**  
Vice President and Treasurer

**Melvyn G. Bell**  
Vice President and President,  
Don Parker Mfg. Ltd.

**Albert A. Boyd**  
Vice President and  
President, White Stag Division

**Anthony C. Straessle, Jr.**  
Vice President and  
President, Croydon  
Manufacturing Co. Limited

**Edward A. Turner**  
Vice President and  
President, Warner's Division

**Robert G. Wilson**  
Vice President and  
President, Hathaway Division

**Roy A. Barkey**  
Assistant Treasurer

**John S. Johnson**  
Secretary

**Donald B. Wilkie**  
Assistant Secretary

## **Board of Directors**

**Harold H. Botnick**  
President and  
Chief Executive Officer,  
Warnaco of Canada Limited

**Cameron Clark, Jr.**  
Vice Chairman, Warnaco Inc.

**John W. Field**  
Chairman, Warnaco Inc.

**James P. Gillies**  
Senior Vice President,  
Warnaco Inc.

**Edward Lawrence**  
Financial Consultant

**Thomas A. Lindsay**  
Chairman,  
Phillips Cables Limited

**R. de Wolfe MacKay**  
Senior Partner,  
law firm of Duquet, MacKay,  
Weldon & Bronstetter

**Warren Y. Soper**  
Vice President, investment  
firm of Pitfield, Mackay,  
Ross & Company Limited

**James C. Walker**  
Chairman, Warnaco of  
Canada Limited, and  
President and Chief Executive  
Officer, Warnaco Inc.

**Executive Offices**  
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Prescott, Ontario  
KOE 1T0

**Listed (WRN)**  
Montreal Stock Exchange  
Toronto Stock Exchange

**Annual Meeting**  
The annual meeting of shareholders of  
Warnaco of Canada Limited will be  
held at 11 a.m. on Tuesday, April 26,  
1977 in Confederation Room Number  
Three, The Royal York Hotel, 100 Front  
Street West, Toronto, Ontario.

**Registrar and Transfer Agent**  
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